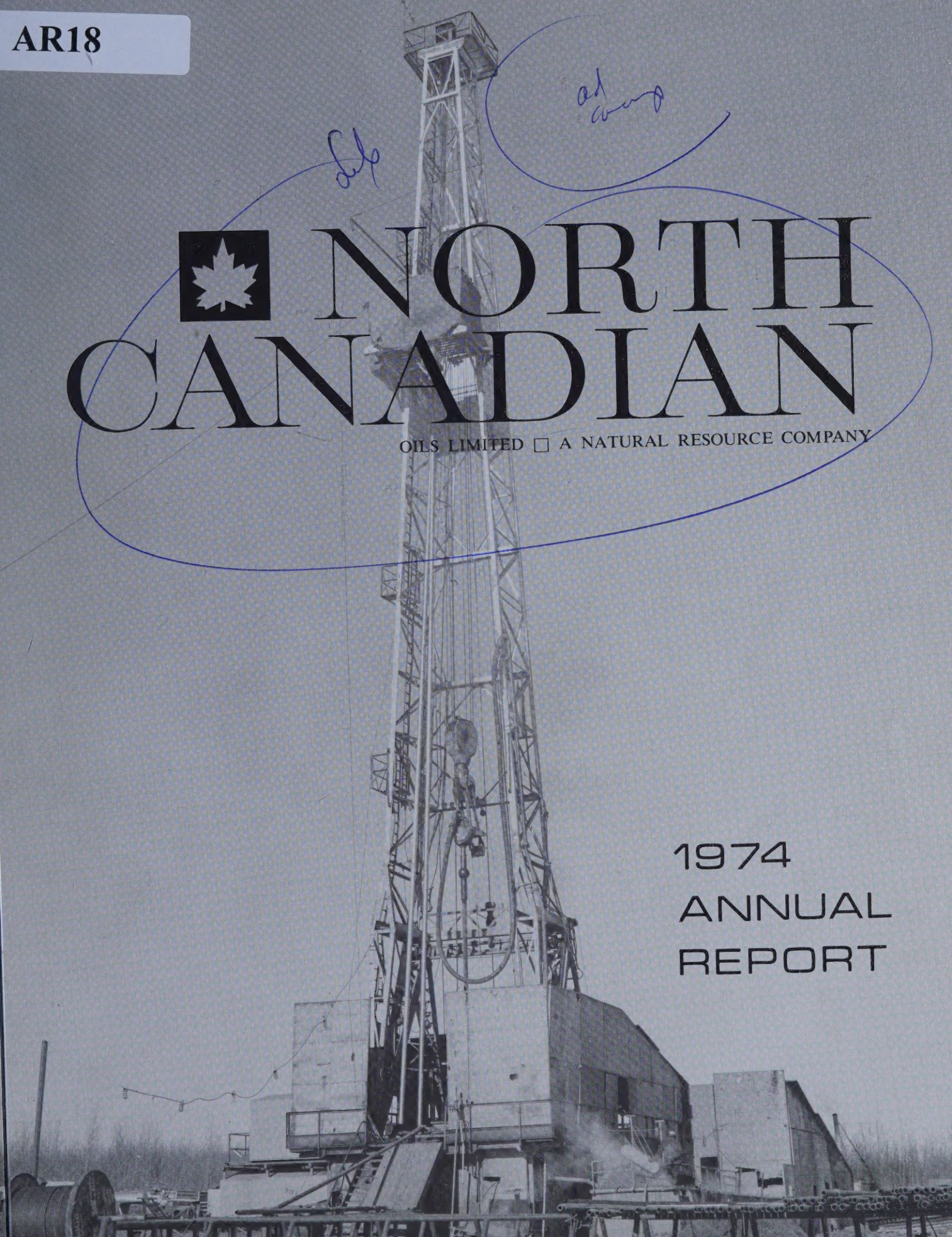




Life *at work*

NORTH CANADIAN

OILS LIMITED ☐ A NATURAL RESOURCE COMPANY

1974
ANNUAL
REPORT

THE COMPANY

North Canadian Oils Limited was incorporated in 1947 to engage in the exploration for and development of oil, natural gas and other natural resources in Western Canada. In addition to its ownership of extensive producing properties in the provinces of Alberta and Saskatchewan, the Company owns a 136-mile gas transmission line, a varying interest in approximately 2,000,000 acres of prospective exploration lands, \$15,000,000 in securities and varied other assets. North Canadian's principal sources of income in 1974 were gas production 47%, pipeline revenues 28%, investment income 13% and oil production 10%.

ANNUAL MEETING

The 1975 annual meeting of shareholders will be held Thursday, May 1, 1975 at 1:30 p.m., Calgary Inn, Calgary, Alberta, Canada. A formal notice of this meeting together with proxy statement and form of proxy, has been mailed with this report. All shareholders who are unable to attend the meeting are requested to sign and return their proxies without delay.

THE YEAR AT A GLANCE

Financial

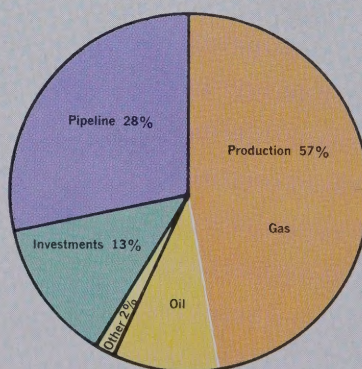
	1974	1973
Gross Revenue (before royalty)	\$ 7,156,000	\$ 6,139,000
Cash Flow (after cost of product, operating, administrative and interest expenses)	4,045,000	3,421,000
Net Income before non-recurring loss	1,860,000	1,439,000*
Per Share (after provision for preferred share dividend)	31¢	24¢
Net Income after non-recurring loss	686,000	1,439,000
Per Share (after provision for preferred share dividend)	10¢	24¢
Exploration Expenditures	1,136,000	1,922,000
Development Expenditures	2,453,000	968,000
Shareholder's Equity	21,428,000	20,891,000*

* Restated

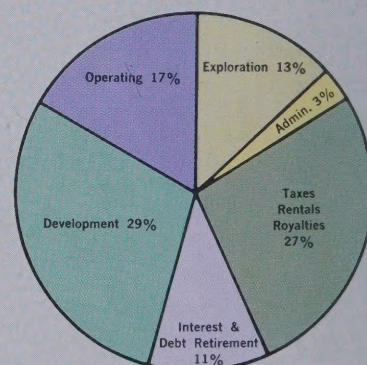
Operating

Natural Gas Sales - billion cubic feet

Production	15.5	14.5
Pipeline	5.0	4.9
Total sales	20.5	19.4
Average per day - million cubic feet	56.2	53.2
Oil production - barrels	132,000	226,000



REVENUE



EXPENDITURES

Estimated Gross Proven Recoverable Reserves — January 1, 1975

GAS	740 Billion cu. ft.
OIL	499 Thousand BbIs.

STATEMENT OF INCOME

for the six months ended June 30, 1974

(with comparative figures for 1973)

	1974	1973 *
Revenue		
Sales of gas and oil	\$3,031,000	\$2,504,000
Less royalties	319,000	195,000
	2,712,000	2,309,000
Investment interest	450,000	468,000
Building rental and miscellaneous	61,000	73,000
	3,223,000	2,850,000
Expenses		
Operating	\$ 926,000	\$ 798,000
Administrative and general	90,000	148,000
Interest	203,000	221,000
	1,219,000	1,167,000
Depreciation & depletion	2,004,000	1,683,000
	503,000	462,000
Income before income taxes	1,501,000	1,221,000
Provision for income taxes		
Current	100,000	100,000
Deferred	429,000	391,000
Net income for Period	972,000	730,000
Per Share	16¢	12¢

The above financial information is unaudited

* The 1973 figures have been restated to reflect the adoption of the full cost method of accounting and to account retroactively for full deferred income tax in accordance with the requirements of the Canadian Provincial Securities Commissions.

AR18

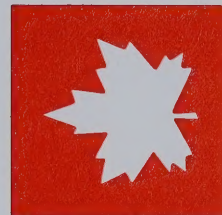


FIRST CLASS

North Canadian Oils Limited
640 Seventh Avenue S.W.
Calgary, Alberta T2P 0Y5

The Editor,
Globe & Mail Report on Business
140 King Street West
Toronto 1, Ontario

INTERIM REPORT



for the six months ended
JUNE 30, 1974

**NORTH
CANADIAN**

Oils Limited ☐ A Natural Resource Company

TO THE SHAREHOLDERS:

North Canadian's net income for the first half of 1974 was \$972,000 or 16¢ per common share. This is an increase of 33% over the comparable figure (restated) of \$730,000 or 12¢ a share for the same period in 1973. Cash generated from operations and investments totaled \$2,004,000, an increase of \$321,000 over last year and the highest cash flow figure ever reported by the Company for a six month period. Gross revenue for the half year was \$3,531,000.

In preparation for the marked increase in the price of gas, which is to be effective November 1 of this year, the Company has over the past three months been engaged in an extensive development program on its wholly owned producing properties at Hilda Schuler and Atlee Buffalo. A total of 27 wells have been drilled and will soon be on production. In addition, a second compressor has been installed at the Company's Hilda Schuler station which will provide for a material increase in the daily delivery volume.

Drilling and geophysical operations have been suspended until winter on the Company's lands in the Dixonville area of northwestern Alberta. As previously reported North Canadian owns interests varying from 36% to 50% in 16 thousand acres upon which 4 successful gas wells have been drilled to date. The Dixonville lands are considered highly prospective, not only for further extension of the newly discovered Cretaceous reserves but also for the discovery of gas in the deeper Devonian Leduc formation.

In the continuing program to define the occurrence and extent of subsurface salt deposits in the Port Hawksbury area of Nova Scotia, North Canadian and Murphy Oil Company Ltd. completed the drilling of a second

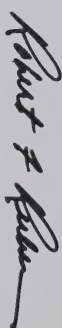
core hole in late July. Both of the wells, which are located approximately 2 miles apart, penetrated thick deposits of salt which appear suitable for the development of commercial underground solution caverns to store liquified petroleum gas, crude oil and other products. The cores of the second well are now being analyzed to determine the better of the two locations. Following the updating of an economic feasibility study prepared prior to the drilling of the first well, it is anticipated that several additional confirmation core holes will be drilled during the latter part of this year or early in 1975.

The Company's management fully shares the concern of the stockholders over the currently depressed price of North Canadian shares. It should be realized, however, that this situation is due entirely to external influences over which the Company has no control. At no time since its incorporation has North Canadian Oils been in a sounder financial position nor has the Company had better immediate prospects then at the present.

Continued improvement in earnings is forecast for the remainder of 1974, with a marked gain expected in the final quarter.

August 6, 1974

R. F. RUBEN
President



STATEMENT OF SOURCE AND USE OF FUNDS

for the six months ended June 30, 1974
(with comparative figures for 1973)

	1974	1973 *
Source of Funds		
Operations:		
Net income for period	\$ 972,000	\$ 730,000
Add: items not involving a current outlay of funds:		
Depreciation and depletion	503,000	462,000
Deferred income taxes	429,000	391,000
Funds provided from operations	1,904,000	1,583,000
Reduction in other assets	—	28,000
Proceeds on issue of common shares	14,000	19,000
	<u>1,918,000</u>	<u>1,630,000</u>
Use of Funds		
Additions to property, plant and equipment	\$1,316,000	\$1,401,000
Increase in investment	—	11,000
Addition to other assets	14,000	—
Reduction of long-term debt	610,000	285,000
Redemption of preferred shares	30,000	74,000
Preferred share dividend	54,000	56,000
	<u>2,024,000</u>	<u>1,827,000</u>
Increase (Decrease) in working capital	(106,000)	(197,000)
Working capital at January 1st	328,000	698,000
Working capital at June 30th	<u>222,000</u>	<u>501,000</u>



ROBERT F. RUBEN,
President

DEAR SHAREHOLDER:

North Canadian's total corporate income from gas and oil production, pipeline sales and investments in 1974 was \$7,156,000 representing an increase over the previous year of more than \$1 million. Cash generated from operations was \$4,045,000 compared to \$3,421,000 in 1973. Net income for the year, before giving effect to a non-recurring item occasioned by a write-off of the Company's 1970 investment in Ocean Resources Ltd., was \$1,860,000, or 31¢ a share. The comparable (restated) figure for the previous year was \$1,439,000, or 24¢ a share. There were at the year end several material changes in the Company's financial statements due to changes in prescribed accounting procedure as well as to the aforementioned non-recurring item. The details are set forth in the financial section of this report.

Exploration in 1974 was at a reduced level due to the uncertainties created by the continuing fight between the federal and provincial governments over the question of resource taxation. Of the \$1,136,000 spent by the Company on exploration, nearly one third was for the acquisition of lands for future drilling. The major expenditures were in the highly prospective Dixonville area of Alberta where North Canadian now owns a participating interest in over 21,000 acres and four completed gas wells. Expenditures for development, however, were much higher in 1974 than in 1973. In response to higher prices and increased demand for gas, \$2.5 million was invested in the drilling of new

wells and the installation of additional plant facilities on the Company's gas producing properties in Alberta and Saskatchewan.

It was indicated in my letter last year that the political uncertainties which had beset the Canadian petroleum industry in 1973 were perhaps coming to an end. Unfortunately this was not the case. The quarrel between the federal and provincial governments over the sharing of higher oil and gas prices continued unabated until the federal government introduced its long delayed budget on November 18.

The budget contained major changes in resource tax legislation, the most significant of which was the disallowance of provincial royalties and other payments paid by industry to the provinces as a deduction against federal income tax. Though partially tempered by a lowering of the basic tax rate on production income, this unprecedented move was a direct challenge to the higher tax and royalty policies of the oil-and-gas producing provinces and left them little choice but to reassess their position if they wished to maintain a viable petroleum industry. Significant concessions have already been made by the Province of Alberta and, to a lesser degree, by British Columbia and Saskatchewan.

It is worthy of note that the principal beneficiaries of the concessions announced by the provinces to date are the smaller exploration and producing companies, such as North Canadian. The events of 1974 notwithstanding, North Canadian's position relative to federal and provincial taxes and royalties is not materially different from its position prior to introduction of the highly controversial federal budget. The year 1975 should, in fact, be a good year for the Company. On the strength of a projected increase of 70% to 80% in revenue derived from gas production, a marked improvement in earnings is forecast for the year.

An acceleration in the Company's exploration activity is planned for 1975. One area of attention outside of the continuing search for new gas and oil reserves will be North Canadian's coal leases at Robb, Alberta, which are known to contain substantial reserves of high quality thermal coal. Following a geological survey of the property made

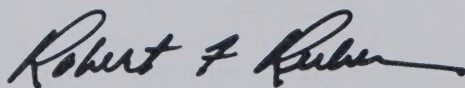
last summer, the Company has filed for additional leases covering an adjoining 1,100 acres. Another area of interest will be ongoing development of the salt cavern storage project in Nova Scotia, which has been stimulated by the recent involvement of a third partner.

In June of 1974 the Company accepted with regret the resignation of Mr. James W. Dowden as an officer and director of the corporation. Mr. Dowden has left Canada to return to the United States. We also report with regret that another Director, Mr. Paul Austin, has informed the Company that he is resigning as President of the Mercantile Bank for a position outside of Canada and will be unable to stand for re-election for 1975. We sincerely thank Mr. Dowden and Mr. Austin for their valued services and wish them well.

The Company's overall exploration program is now under the direction of Mr. D. F. Christensen, who was appointed Vice-President in charge of exploration in September of last year. Mr. Christensen brings a wealth of experience to North Canadian and will, we are confident, provide a new dimension to the Company's exploration endeavours.

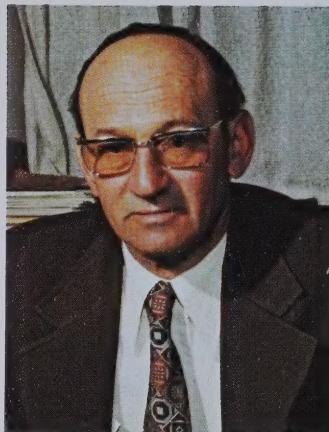
In looking back at the past two years it is apparent that a significant accomplishment of the Company and its people has been the ability to cope successfully with the anxieties and frustrations of change. The importance of this ability cannot be overemphasized when it is realized that political, economic and social change is becoming commonplace rather than unusual. It is extremely gratifying to management that North Canadian Oils has emerged from the two most turbulent years in the history of our industry as a viable and healthy company. Strengthened by the continued loyal support and dedication of its employees, your Company looks to the future with optimism.

Respectfully submitted on behalf of the Board of Directors.



ROBERT F. RUBEN
President

March 7, 1975.



NATHAN GOODMAN
Vice-President, Production

PRODUCTION

Company-owned wells produced 15.5 billion cubic feet of gas in 1974 for sale to TransCanada PipeLines and the Saskatchewan Power Corporation. Proceeds from the sale of gas production contributed 47% of North Canadian's total income for the year. As the result of higher contract prices and higher delivery volumes which came into effect in the fourth quarter, production revenue for the month of December was 83% higher than for January.

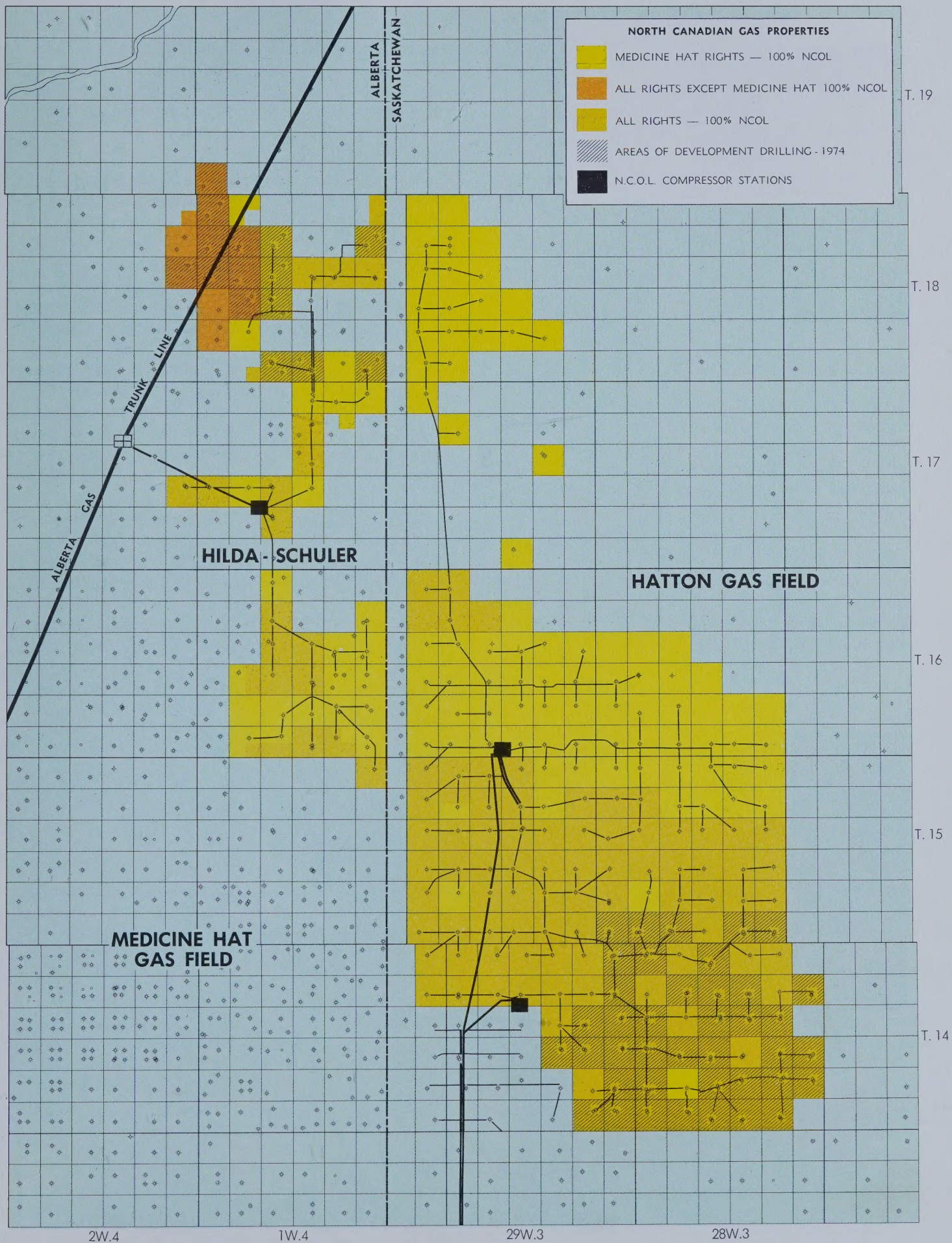
Oil production in 1974 averaged 361 barrels a day, down from 620 barrels a day in 1973. This decrease, which had been expected, was due to the pay-out in mid year of a short term production sub-lease purchased by the Company in 1972. Production revenue from the sub-lease is not taken into account in determination of the Company's net income.

It is estimated that North Canadian's gross proven recoverable gas reserves on January 1, 1975, totalled 740 billion cubic feet. The Company's oil reserves on the same date are estimated at 498,500 barrels.

DEVELOPMENT

The 1974 development program was the largest ever undertaken by the Company in a single year. A total of 67 wells were drilled on the Company's wholly owned producing properties in Alberta and Saskatchewan. Forty Milk River wells were completed at Hatton (Sask.), nineteen Milk River wells at Hilda-Schuler and eight Medicine Hat wells at Buffalo-Atlee. To provide for a further increase in productive capacity, additional compression facilities were installed at Hatton and Hilda-Schuler.

North Canadian operates a total of 356 Company-owned wells and is the operator of the Corbett Creek Viking unit, in which it has a 44% interest. The Company has an estimated 229 proven drilling locations for future development.





W. K. MILLER
Manager,
Gas Transmission

PIPELINE

A major asset of the Company is a 136 mile natural gas pipeline extending from Wabamun to Hinton, Alberta. With an average daily sales volume of 13.6 million cubic feet, revenue from the line accounted for approximately 28% of North Canadian's total gross income in 1974.

The line, which was constructed in 1954 to service the Company's fuel contract with a large pulp mill at Hinton, also supplies a number of other customers, which provides for a steady annual growth in sales. Net operating income from the line was up approximately 11% in 1974.



D. F. CHRISTENSEN
Vice-President, Exploration

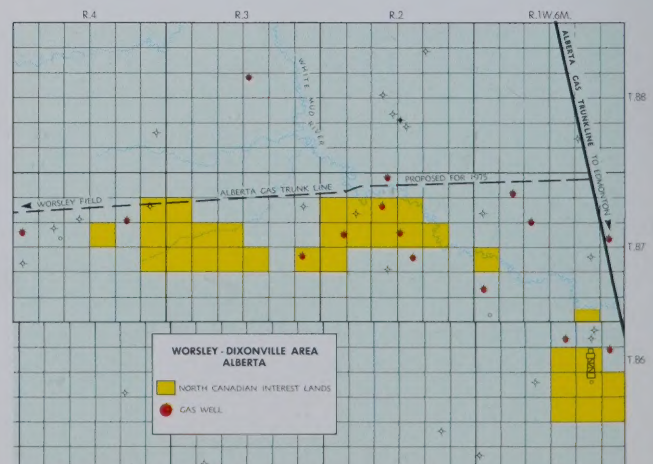
EXPLORATION

North Canadian participated in the drilling of five exploratory wells in 1974, of which one was completed as a gas discovery and four were abandoned. During the year the Company acquired an interest in 26,400 acres of new lands for future exploration, bringing its undeveloped land holdings at the year end to 2,099,000 gross acres. A second

stratigraphic test was drilled in connection with the Company's salt cavern storage project in Nova Scotia. Further evaluations were conducted on the Company's Alberta coal properties and an application was filed for additional coal leases.

The gas discovery was in the highly prospective Worsley-Dixonville area of northwestern Alberta, where the Company owns varying interests in approximately 21,000 acres. The well was completed in the Bluesky-Gething sand formation after evaluating the deeper Devonian reef, which proved non-productive. Tests conducted over a small interval of the producing sand indicated an estimated deliverability of 3 million cubic feet a day. The new well extends, by two to three miles, the Cretaceous gas pool discovered in 1973 by North Canadian and its partners and brings to four the number of gas wells in the area in which the Company has an interest. Plans are now being made to place the wells on production in 1975.

At East Worsley, a farmout agreement has been reached with Pacific Petroleum Ltd. for the drilling of a 7,150-foot Devonian reef test on lands owned by the Company and others. For the drilling of the well Pacific will earn a 50% interest in 2,560 acres. Rights to the shallower Cretaceous sands, however, are not included in the agreement but are reserved to North Canadian and its partners. A recent Devonian discovery in the area flowed gas at 14 million cubic feet a day.



ALBERTA

Lake Athabasca

Ft. Chipewyan

ATHABASCA TAR SANDS

SASKATCHEWAN

Lesser Slave Lake

STURGEON LAKE

CORBETT CREEK

Edmonton

Hinton

ROBB

JOARCAM

THREE HILLS CREEK

Calgary

Invermere

ATLEE/BUFFALO

Medicine Hat

HILDA/SCHILLER

MEDICINE HAT

ETZIKOM

BRITISH COLUMBIA

NORTH CANADIAN PROPERTIES AND INTERESTS — 1974

Petroleum & Natural Gas Lands

Exploratory Wells

Oil Production

Gas Production

Coal Leases

Mining Claims

LAND HOLDINGS

DEVELOPED 234,000 ACRES

UNDEVELOPED 2,099,000 ACRES

TOTAL 2,333,000 ACRES



Major Gas Fields



Major Oil Fields



Major Transmission Lines

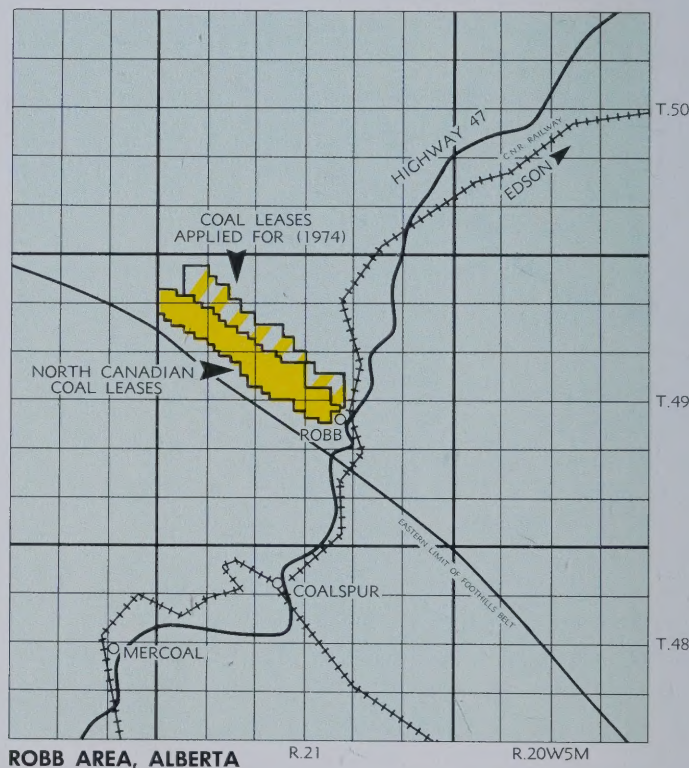
MONTANA

SALT CAVERN DEVELOPMENT

North Canadian, in partnership with Murphy Oil Company Ltd., has the exclusive right to explore a large sector of Cape Breton Island, Nova Scotia, for salt deposits suitable for the development of commercial storage caverns. The area is favourably situated near the ice free superport facilities on the Strait of Canso. A core hole drilled by North Canadian in 1972 intersected thick, pure salt beds, ideally suited for the leaching of caverns. Another core hole two miles distant was drilled in 1974. Although the salt encountered in the second test was not as thick or as clean as that found in the initial well, it also appears suitable for cavern development. An option to participate in the project has been given by North Canadian and Murphy Oil to a third company which has extensive international experience in the movement and storage of hydrocarbons. This company would, in addition to providing needed expertise and financial support, be a prime user of the proposed storage facilities.



by the Company during the past year. Analyses of samples taken confirmed the high thermal value and low sulphur content of the coal. Following the survey, an application was filed for an additional 1,100 acres of adjoining coal leases. Plans are presently being formulated for further evaluation of the properties.



COAL AND MINERAL EXPLORATION

North Canadian has, for more than 20 years, held the rights to extensive coal deposits in the Province of Alberta. The Company's leases, located at Robb on the Coal Branch of the Canadian National Railway, has been estimated to contain over 50,000,000 tons of high quality thermal coal. In response to the sharply renewed interest in the use of thermal coal, occasioned by rapidly rising prices and expected shortages of other fuels, a geological survey of the property was carried out

North Canadian has a 50% interest in 40 lode mineral claims located in the Windermere area of southern British Columbia. In face of the stringent and cost creating conditions imposed on the mining industry in that province, the Company is maintaining a holding position on these claims.

Based on Uranium showings found during a 1970 geological field survey in the Athabasca region of northeastern Alberta, the Company retains a 100% interest in 3,400 acres of quartz mineral leases in this area.

At year end your Company, in partnership with another Canadian company, initiated a base metal and precious metal prospecting project in Costa Rica. The prospecting program, which is now under way, will concentrate in the central volcanic highlands and southern coastal areas of the country.



CHARLES K. LOUGH
Secretary-Treasurer

FINANCIAL REVIEW

Accounting Change — Deferred Income Taxes

During the year, the Company adopted the tax allocation basis of accounting with respect to all timing differences between taxable income and reported income in compliance with the requirements of the Canadian Provincial Securities Commissions. Retroactive adjustments, as detailed in Note 7, have been recorded in the accounts and prior year's financial figures have been restated accordingly.

Revenue

Gross operating revenue in 1974 was \$7,156,000, an increase of 17% over the comparative figure of \$6,139,000 in 1973. The gain is primarily attributable to a higher level of gas production coupled with a 32% increase for the year in the weighted average price received for gas.

Expenses

Operating, administrative and interest expenses increased to \$2,505,000 from the 1973 figure of \$2,311,000, an increase of 8%. Of this increase, \$164,000 is attributable to higher operating costs and \$39,000 to administrative expenses.

The 1974 provision for depreciation and depletion declined by approximately \$70,000. The reduction in depletion expense of 18% was a result of the expiration in July of the short term developed sub lease originally acquired late in 1972. This decrease was partially offset by a 13% increase in depreciation expense due to increased investment in plant and equipment.

Cash Generated From Operations

Cash generated from operations totalled \$4,045,000 or 72¢ a share compared to \$3,421,000 or 61¢ a share in 1973, an increase of 18%. This figure represents the internally generated funds of the Company available for exploration and development, debt retirement, the payment of preferred share dividends and payment of current income tax.

Income Tax

Corporate tax changes introduced by the federal government on November 18th substantially increased the Company's 1974 current tax liability. Prior to May 6, 1974, the effective date of the changes, Canadian oil companies were allowed to deduct from taxable income in the year incurred 100% of expenditures for land acquisition and development. Under the new regulations, these expenditures are still allowed as a tax deduction but can only be written off at the rate of 30% a year on a reducing balance. Because of the unusually large development program undertaken by North Canadian in 1974, this change resulted in an unexpected additional tax liability for the Company of \$550,000. A credit of approximately \$1,200,000, however, is available as a deduction against future taxable income.

Working Capital and Long Term Debt

The Company's net working capital at December 31, 1974 was \$747,000 compared to \$328,000 at the beginning of the year.

Due to heavy fourth quarter development expenditures, the bank loan portion of the Company's long term debt had increased to \$4,000,000 at the year end. This was substantially reduced, however, in January of 1975.

Net Income

Before giving effect to a non-recurring loss of \$1,174,000, net income for the year was \$1,860,000, or 31¢ per common share, an increase of 29%. The comparable figure for 1973, restated to account for deferred income tax, was \$1,439,000 or 24¢ a share.

The non-recurring loss was occasioned by the decision of management to write off the Company's investment in Ocean Resources Ltd., a non-controlled

subsidiary formed by North Canadian and others in 1970. Ocean Resources is a joint venture company dedicated to the seeking of foreign concessions and exploration opportunities. Although still active, the company's achievements after four years do not, in the opinion of your management, justify the continued recognition of this investment as a corporate asset. North Canadian has not, however, surrendered its equity position nor released Ocean Resources from its obligations.

Capital Expenditures

Capital expenditures in 1974 totalled \$3,645,000 in 1974. Of this, 67% or \$2,453,000 was spent in the drilling of development wells and the installation of compression facilities required to increase productive capacity. \$1,136,000 was spent on exploration of which approximately \$450,000 was for the acquisition of lands for future drilling.

Trends

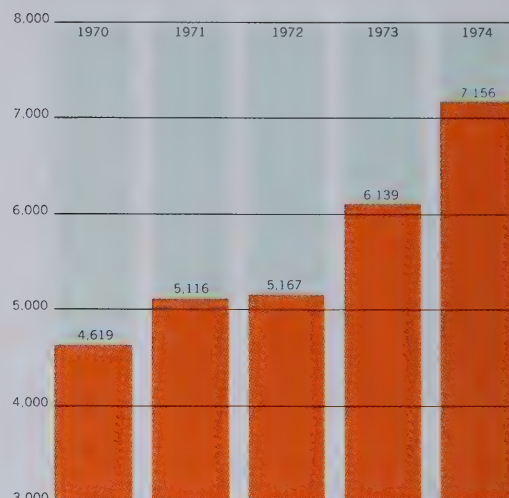
A review of the past five years reveals a period of steady growth for the Company. Recorded increases in revenue, cash flow and net income, are primarily attributable to the continued development and exploitation of the Company's proven gas reserves which were increased by 295 billion cu. ft. during the period. Production capacity was raised from 37 million cubic feet per day at the beginning of 1970 to 59 million cubic feet per day at the end of 1974. The weighted average sales price received for gas doubled over this period.

In projecting the future trend in gas revenue, it is particularly significant that 49% of the increase in production and 67% of the increase in price which occurred over the past five years, took place in the last four months of 1974.

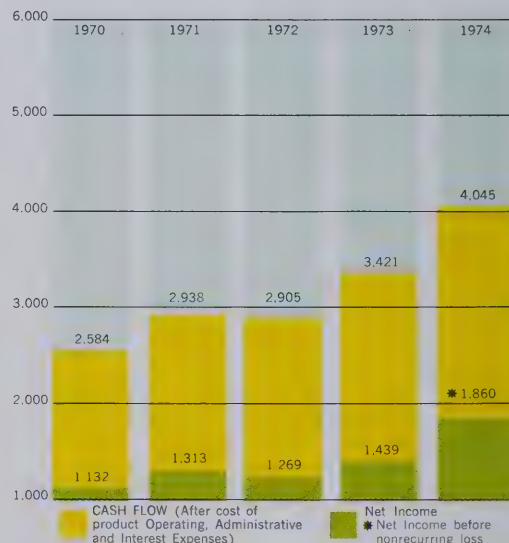
Annual revenue from the production of oil, excluding that received from the short-term production lease referred to elsewhere, increased by approximately 100% over the 1970-1974 period due to higher well-head prices. Oil income, which accounted for 10% of the Company's total revenue in 1974, should show further improvement in 1975 with the anticipated easing of current price restrictions.

Receipts from pipeline sales over the five years showed an average annual increase of approximately 5%. No change in this established rate of growth is foreseen over the next several years.

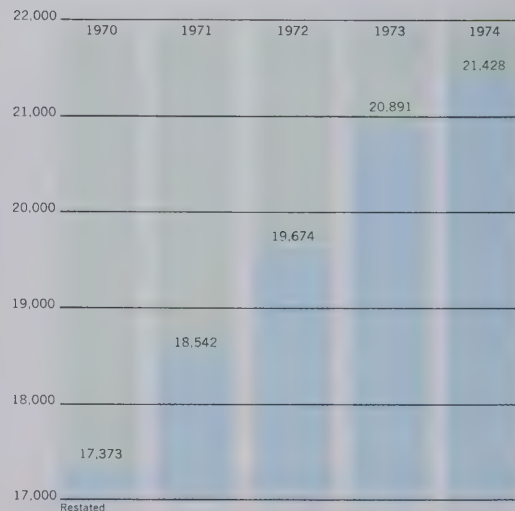
GROSS REVENUES
Thousands of Dollars



NET INCOME AND CASH FLOW
Thousands of Dollars



SHAREHOLDERS' EQUITY
Thousands of Dollars



FIVE YEAR REVIEW

(in thousands)

Financial	1974	1973	1972	1971	1970
Revenue					
Sale of oil and gas	\$ 6,116	\$ 5,072	\$ 4,081	\$ 3,945	\$ 3,444
Less royalties	606	407	233	258	178
	5,510	4,665	3,848	3,687	3,266
Interest income	902	918	930	1,021	1,012
Building, rental and miscellaneous	138	149	156	150	163
	\$ 6,550	\$ 5,732	\$ 4,934	\$ 4,858	\$ 4,441
Expenses					
Operating and Administrative	2,084	1,881	1,620	1,474	1,405
Interest	421	430	409	446	452
	\$ 2,505	\$ 2,311	\$ 2,029	\$ 1,920	\$ 1,857
Cash generated by operations	4,045	3,421	2,905	2,938	2,584
Per common share	72¢	61¢	52¢	52¢	46¢
Depreciation and depletion	812	884	612	558	441
Income before income taxes and non-recurring loss	3,233	2,537	2,293	2,380	2,143
Income taxes					
Current	971	183	134	320	452
Deferred	402	915	890	747	559
	1,373	1,098	1,024	1,067	1,011
Net income before non-recurring loss	\$ 1,860	\$ 1,439	\$ 1,269	\$ 1,313	\$ 1,132
Per common share	31¢	24¢	20¢	21¢	18¢
Non-recurring loss	(1,174)	—	—	—	—
Net income	\$ 686	\$ 1,439	\$ 1,269	\$ 1,313	\$ 1,132
Per common share	10¢	24¢	20¢	21¢	18¢
Working capital	747	328	698	717	684
Investments	15,000	16,165	16,155	16,036	16,021
Property and Equipment - Net	18,848	16,027	14,115	12,233	10,842
Long Term Debt	7,227	6,094	6,712	6,681	7,149
Shares outstanding					
Common - par value \$.25 per share	5,629	5,627	5,618	5,602	5,587
Preferred - par value \$.50 per share	37	39	42	44	47
Shareholders' Equity	21,428	20,891	19,674	18,542	17,373
Cost of Finding and Developing Reserves					
Exploration	1,136	1,922	1,035	1,305	314
Development	2,453	968	1,427	601	1,244
Production and Sales					
Natural Gas					
Production - billion cubic feet	15.5	14.5	14.3	14.5	11.9
Pipeline - billion cubic feet	5.0	4.9	4.8	4.6	4.4
Total Sales - billion cubic feet	20.5	19.4	19.1	19.1	16.3
Average per day - million cubic feet	56.2	53.2	52.4	52.4	44.7
Oil Production - barrels	132,000	226,469	68,919	58,540	54,929

COMMON STOCK PRICE RANGE

Quarter	TORONTO STOCK EXCHANGE (Can. \$)		AMERICAN STOCK EXCHANGE (U.S. \$)	
	1974	1973	1974	1973
1st	6.62 / 4.95	8.30 / 5.80	7-0/16 / 5-0/16	8-6/16 / 5-12/16
2nd	5.75 / 3.00	8.15 / 6.10	5-15/16 / 3-8/16	8-4/16 / 5-14/16
3rd	3.90 / 2.45	8.15 / 6.45	4-0/16 / 2-6/16	8-4/16 / 6-4/16
4th	3.85 / 2.40	8.05 / 4.40	3-15/16 / 2-6/16	8-3/16 / 4-2/16



NORTH CANADIAN OILS LIMITED

STATEMENT OF INCOME

YEARS ENDED DECEMBER 31, 1974 AND 1973

	1974	1973
Revenue:		
Gross operating revenues	\$6,116,000	\$5,072,000
Less royalties	606,000	407,000
	5,510,000	4,665,000
Interest income	902,000	918,000
Building revenue and miscellaneous income	114,000	134,000
Gain on foreign exchange	24,000	15,000
	6,550,000	5,732,000
Expenses:		
Operating	1,810,000	1,646,000
Administrative (Note 8)	274,000	235,000
Interest on long-term debt	421,000	430,000
Depreciation	321,000	285,000
Depletion	491,000	599,000
	3,317,000	3,195,000
Income before income taxes and non-recurring loss	3,233,000	2,537,000
Income taxes (Note 7):		
Current	971,000	183,000
Deferred	402,000	915,000
	1,373,000	1,098,000
Income before non-recurring loss	1,860,000	1,439,000
Non-recurring loss (Note 3)	1,174,000	—
Net income	\$ 686,000	\$1,439,000
Income per common share (after preferred dividends):		
Income before non-recurring loss	\$0.31	\$0.24
Net income	\$0.10	\$0.24

STATEMENT OF RETAINED EARNINGS

YEARS ENDED DECEMBER 31, 1974 AND 1973

	1974	1973
Balance, January 1		
As previously reported	\$18,932,000	\$16,374,000
Retroactive adjustments:		
Change in accounting practice (Note 1)	—	627,000
Deferred income taxes (Note 7)	(4,829,000)	(4,069,000)
As restated	14,103,000	12,932,000
Net income for the year	686,000	1,439,000
	14,789,000	14,371,000
Deduct:		
Dividends on preferred shares	106,000	110,000
Transfer to capital redemption reserve fund	89,000	158,000
	195,000	268,000
Balance, December 31	\$14,594,000	\$14,103,000

See accompanying notes to financial statements.



NORTH CANADIAN OILS LIMITED

STATEMENT OF CHANGES IN FINANCIAL POSITION

YEARS ENDED DECEMBER 31, 1974 AND 1973

	<u>1974</u>	<u>1973</u>
Source of funds:		
Net income	\$ 686,000	\$1,439,000
Add items not requiring an outlay of funds:		
Depreciation and depletion	812,000	884,000
Deferred income taxes	402,000	915,000
Non-recurring loss	1,174,000	—
Funds provided from operations	3,074,000	3,238,000
Bank loan	3,550,000	800,000
Proceeds on sale of fixed assets	12,000	12,000
Proceeds on issue of common shares	14,000	47,000
Decrease in other assets	3,000	37,000
Total funds provided	<u>6,653,000</u>	<u>4,134,000</u>
Use of funds:		
Expenditures for property, plant and equipment	3,645,000	2,808,000
Investment in and advances to non-controlled companies	9,000	10,000
Reduction of bank loan and other long-term debt	2,417,000	1,418,000
Dividends on preferred shares	106,000	110,000
Redemption of preferred shares	57,000	158,000
Total funds used	<u>6,234,000</u>	<u>4,504,000</u>
Increase (Decrease) in working capital	419,000	(370,000)
Working capital, beginning of year	328,000	698,000
Working capital, end of year	<u>\$ 747,000</u>	<u>\$ 328,000</u>

See accompanying notes to financial statements.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of North Canadian Oils Limited as at December 31, 1974 and 1973 and the statements of income, retained earnings and changes in financial position for the years then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary under the circumstances.

In our opinion, these financial statements present fairly the financial position of the Company as at December 31, 1974 and 1973 and the results of its operations and the changes in its financial position for the years then ended, in accordance with generally accepted accounting principles applied on a consistent basis after giving retroactive effect to the change in the method of accounting for exploration and development costs as explained in Note 1 and deferred income taxes as explained in Note 7.

Calgary, Alberta
February 26, 1975.

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants



NORTH CANADIAN OILS LIMITED

BALANCE SHEET

DECEMBER 31, 1974 AND 1973

ASSETS

	<u>1974</u>	<u>1973</u>
Current Assets:		
Cash	\$ 1,531,000	\$ 316,000
Accrued interest receivable	385,000	493,000
Accounts receivable	934,000	738,000
Prepaid expenses	80,000	18,000
Total current assets	<u>2,930,000</u>	<u>1,565,000</u>
6% St. Regis Paper Company notes receivable, due January 1, 1984 (no quoted market value) (Note 2)	<u>15,000,000</u>	<u>15,000,000</u>
Investment in and advances to non-controlled companies, at cost (Note 3)	<u>—</u>	<u>1,165,000</u>
Property, plant and equipment (Notes 1 and 4):		
At cost	25,888,000	22,919,000
Accumulated depreciation and depletion	<u>7,040,000</u>	<u>6,892,000</u>
	<u>18,848,000</u>	<u>16,027,000</u>
Other assets, at cost	<u>176,000</u>	<u>179,000</u>
	<u>\$36,954,000</u>	<u>\$33,936,000</u>

On behalf of the Board:

Robert F. Rubin , Director

Charles B. Long , Director

See accompanying notes to financial statements.

LIABILITIES

	<u>1974</u>	<u>1973</u>
Current liabilities:		
Accounts payable and accrued liabilities	\$ 892,000	\$ 737,000
Income taxes payable	793,000	48,000
Long-term debt due within one year	498,000	452,000
Total current liabilities	<u>2,183,000</u>	<u>1,237,000</u>
Long-term debt (Note 5)	<u>7,227,000</u>	<u>6,094,000</u>
Deferred income taxes (Note 7)	<u>6,116,000</u>	<u>5,714,000</u>
Shareholders' equity (Note 6):		
Capital Stock:		
5½% cumulative redeemable preferred shares, par value \$50 each; authorized 70,000 shares; issued 37,262 shares (1973 - 39,042 shares)	1,863,000	1,952,000
Common shares, par value \$0.25 each; authorized 7,500,000 shares; issued 5,629,165 shares (1973 - 5,626,665 shares)	1,407,000	1,406,000
	3,270,000	3,358,000
Capital redemption reserve fund	1,637,000	1,548,000
Contributed surplus	1,927,000	1,882,000
Retained earnings	14,594,000	14,103,000
	<u>21,428,000</u>	<u>20,891,000</u>
	<u>\$36,954,000</u>	<u>\$33,936,000</u>

See accompanying notes to financial statements.



NORTH CANADIAN OILS LIMITED

NOTES TO FINANCIAL STATEMENTS

1) ACCOUNTING PRINCIPLES:

The Company follows the full cost method of accounting for exploration and development expenditures, wherein all costs related to the exploration for and development of oil and gas reserves are capitalized. These costs include leasehold acquisition costs, geological and geophysical expenses, carrying charges of non-producing properties, costs of drilling both productive and non-productive wells, oil and gas field production equipment, gathering lines, compressor and gas plants and overhead expenses related to exploration activities. All such costs are being amortized on a composite unit-of-production method based on estimated proven recoverable reserves. The office building and other equipment are depreciated over the useful lives of the assets, whereas the pipeline is being depreciated over the life of the existing gas contract.

Effective January 1, 1973, the Company retroactively adopted the full cost method of accounting. The adoption of this policy resulted in a net increase at January 1, 1973, in the Company's property, plant and equipment in the amount of \$627,000 with a corresponding net increase in previously reported retained earnings at the same date.

2) 6% ST. REGIS PAPER COMPANY NOTES RECEIVABLE:

The notes may be converted into St. Regis common stock at \$38 (U.S.) per share until January 2, 1976. The quoted market value of St. Regis common shares was approximately \$19 (U.S.) and \$34 (U.S.) at December 31, 1974 and 1973 respectively.

3) INVESTMENT IN AND ADVANCES TO NON-CONTROLLED COMPANIES:

Pursuant to an agreement, North Canadian Oils Limited joined with others in 1970 in the formation of a company for the purpose of participating in off-shore exploration ventures. In this connection, the Company purchased 40,000 shares for an aggregate consideration of \$40,000 and advanced \$1,134,000 (U.S.). During 1974 the Company wrote off the investment and the advances.

4) PROPERTY, PLANT AND EQUIPMENT:

	1974		1973	
	<u>Cost</u>	<u>Accumulated Depreciation and Depletion</u>	<u>Cost</u>	<u>Accumulated Depreciation and Depletion</u>
Petroleum and natural gas leases, rights, exploration and development costs and related equipment thereon	\$20,543,000	\$3,360,000	\$16,955,000	\$2,979,000
Developed sub-lease	—	—	650,000	431,000
Land, pipeline, building and other equipment	5,345,000	3,680,000	5,314,000	3,482,000
	<u>\$25,888,000</u>	<u>\$7,040,000</u>	<u>\$22,919,000</u>	<u>\$6,892,000</u>

5) LONG TERM DEBT:

	1974		1973	
	Due Within One Year	Long Term Portion	Due Within One Year	Long Term Portion
6% Series A Secured Notes maturing October 1, 1979	\$250,000	\$1,605,000	\$225,000	\$1,855,000
5½ % Series B Secured Notes (\$1,713,000 U.S., 1973 \$1,920,000 U.S.) maturing October 1, 1979	228,000	1,592,000	207,000	1,839,000
6% Mortgage, repayable in quarterly instalments of \$5,000 plus interest, maturing March 1, 1977	20,000	25,000	20,000	45,000
Bank Loan	—	4,000,000	—	2,350,000
5½ % Mortgage, due March 5, 1982	—	5,000	—	5,000
	<u>\$498,000</u>	<u>\$7,227,000</u>	<u>\$452,000</u>	<u>\$6,094,000</u>

The bank loan is secured by \$3,000,000 of 6% St. Regis Paper Company convertible notes, due January 1, 1984. Although the loan is subject to call on demand, the agreement requires repayment in June 1976. The 6% mortgage is secured by the office building.

The Series A and B Notes are secured by a first mortgage on the Company's gas pipeline, its interests in certain gas fields and the related gas purchase and sales contracts.

Sinking fund instalments are required on October 1 of each of the following years:

	Series A (Canadian)	Series B (U.S.)
1975	\$250,000	\$230,000
1976 to 1978 (inclusive)	250,000	230,000
Balance in 1979	855,000	793,000

These notes may be redeemed prior to maturity at a premium of 2.0% (Canadian) and 1.82% (U.S.) until October 1, 1975. The premium then decreases .5 of 1% per year on Series A Notes and .46 of 1% on Series B Notes with no premium on redemptions made after October 1, 1978.

The current portion of the Series B Notes has been converted to Canadian dollars at the rate of exchange in effect on December 31, 1974. The long term portion represents the Canadian dollar equivalent of United States dollars on the date of receipt.

6) CAPITAL STOCK AND STOCK OPTIONS:

Preferred Shares Redeemed:

Under the terms of issue of its preferred shares, the Company is required to purchase for cancellation 2,000 preferred shares in each year. The shares may be redeemed from the holders on 30 days notice at a premium of .25% of par value (reducing to nil for redemptions after June 1, 1975) or purchased on the market. At December 31, 1974, requirements had been met and in addition 2,000 shares applicable to June 1, 1975 and 738 shares applicable to June 1, 1976, have been cancelled (1,780 were purchased and cancelled in 1974). In connection with the redemption of the preferred shares, \$89,000 and \$153,500 was transferred to the Capital Redemption Reserve Fund for 1974 and 1973 respectively. The difference between the acquisition cost and the par value of the preferred shares redeemed, in the amount of \$32,000, has been credited to contributed surplus. The preferred share indenture imposes certain restrictions on the payment of common share dividends.

	<u>1974</u>	<u>1973</u>
Common Shares Issued:		
Shares Issued	2,500	8,336
Consideration credited to:		
Capital stock	\$ 1,000	\$ 2,000
Contributed surplus	<u>13,000</u>	<u>45,000</u>
	<u>\$14,000</u>	<u>\$47,000</u>
Stock Option Plan:		
Options Granted	5,000	15,000
Options Exercised	2,500	8,336
Options outstanding at December 31	25,000	22,500
Option Price	\$3.56 - \$5.99	\$5.56 - \$5.99

The options are exercisable cumulatively in three equal instalments within a five-year period with the first instalment exercisable one year after date of granting the option. At December 31, 1974 there were 7,500 shares reserved for future options under the plan.

Payment for shares issued under the stock option plan was accepted by the Company in the form of notes receivable. The notes, which are secured by the purchased shares, are non-interest bearing until they mature, at which time they bear interest at 8%. They become due at the earlier of the date of voluntary termination of employment of the optionee, the date of sale of the purchased shares or ten years from the subscription date. The notes receivable in the amount of \$140,000 at December 31, 1974 and 1973 (of which \$98,000 and \$112,000 at December 31, 1974 and 1973 respectively is due from a director and a retired officer) are carried on the balance sheet under other assets.

7) INCOME TAXES:

For income tax purposes the Company is entitled to claim drilling, exploration and lease acquisition costs and capital cost allowances in amounts which may exceed the related expenses reflected in its accounts.

During the year the Company retroactively adopted the tax allocation basis of accounting with respect to all timing differences between taxable income and reported income. Under tax allocation, deferred income taxes are provided to the extent that current income taxes have been reduced by claiming capital cost allowances and drilling exploration and lease acquisition costs in excess of the related expenses reflected in the accounts. In prior years, deferred income taxes had only been provided on timing differences between depreciation and capital cost allowances. As a result of this change, additional deferred income taxes have been provided in the amount of \$299,000 and \$855,000 for 1974 and 1973 respectively with a corresponding reduction in net income of \$0.05 per share for 1974 and \$0.15 per share for 1973.

During 1974, budgetary proposals to amend the Income Tax Act were introduced by the Canadian government. Some of the Provinces have announced their intention to provide rebates which will have the effect of off-setting the increased income taxes from the Federal amendments. The 1974 income taxes have been calculated on the basis of these proposals. As a result, the provision for income taxes is greater than the amount which would have been provided based on existing legislation, by approximately \$31,000, and net income has been reduced accordingly.

8) AMOUNTS PAID TO DIRECTORS AND SENIOR OFFICERS:

The aggregate direct remuneration paid or payable to the directors and senior officers of the Company amounted to \$124,000 in 1974 and \$116,000 in 1973. During the years there were a total of seven directors and five officers of whom two served in both capacities.

DIRECTORS

PAUL H. AUSTIN

President,
Mercantile Bank of Canada,
Montreal, Quebec.

C. M. HAMILTON

Business Consultant,
Calgary, Alberta.

MARSHALL A. JACOBS

Senior Partner, Jacobs, Persinger & Parker,
New York, New York.

CHARLES K. LOUGH

Secretary-Treasurer of the Company,
Calgary, Alberta.

ROSS A. MacKIMMIE, Q.C.

Senior Partner, MacKimmie Matthews,
Calgary, Alberta.

IVAN SUTHERLAND

Vice-President,
North Western Pulp and Power,
Hinton, Alberta.

ROBERT F. RUBEN

President of the Company,
Calgary, Alberta.

OFFICERS

ROBERT F. RUBEN

President

D. F. CHRISTENSEN

Vice-President, Exploration

NATHAN GOODMAN

Vice-President, Production

CHARLES K. LOUGH

Secretary-Treasurer

KEY PERSONNEL

W. K. MILLER

Manager, Gas Transmission

D. E. MACDOUGALL

Chief Geologist

B. L. COOK

Land Manager

CAPITAL

7,500,000 Common Shares having a Par Value of Twenty-five Cents per Share

Issued 5,629,165

70,000 Preferred Shares having a Par Value of \$50.00 per Share.

Issued 37,262

COMMON SHARE REGISTRARS

GUARANTY TRUST COMPANY

OF CANADA Calgary, Alberta

THE BANK OF NOVA SCOTIA TRUST

COMPANY OF NEW YORK New York City, U.S.A.

COMMON SHARE TRANSFER AGENTS

GUARANTY TRUST COMPANY

OF CANADA Calgary and Toronto

THE BANK OF NOVA SCOTIA TRUST

COMPANY OF NEW YORK New York City, U.S.A.

PREFERRED SHARE REGISTRAR AND TRANSFER AGENTS

GUARANTY TRUST COMPANY

OF CANADA Calgary and Toronto

COMMON SHARES LISTED

AMERICAN STOCK EXCHANGE

TORONTO STOCK EXCHANGE

PREFERRED SHARES LISTED

TORONTO STOCK EXCHANGE Toronto

AUDITORS

PEAT, MARWICK, MITCHELL & CO. Calgary, Alberta

BANK AFFILIATIONS

The Mercantile Bank of Canada Calgary, Alberta

The Bank of Nova Scotia Calgary, Alberta

HEAD OFFICE

640 Seventh Avenue Southwest Calgary, Alberta

FORM 10K

North Canadian Oils Limited will furnish upon written request, to any registered shareholder without charge, a copy of its most recent Annual Report — Form 10K, as filed with the United States Securities and Exchange Commission.



NORTH CANADIAN OILS LIMITED 640 Seventh Avenue Southwest, Calgary, Canada T2P 0Y5
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TWENTY-EIGHTH ANNUAL REPORT 1974